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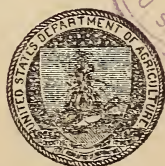
ONCE AGAIN THE UNITED STATES WAREHOUSE ACT

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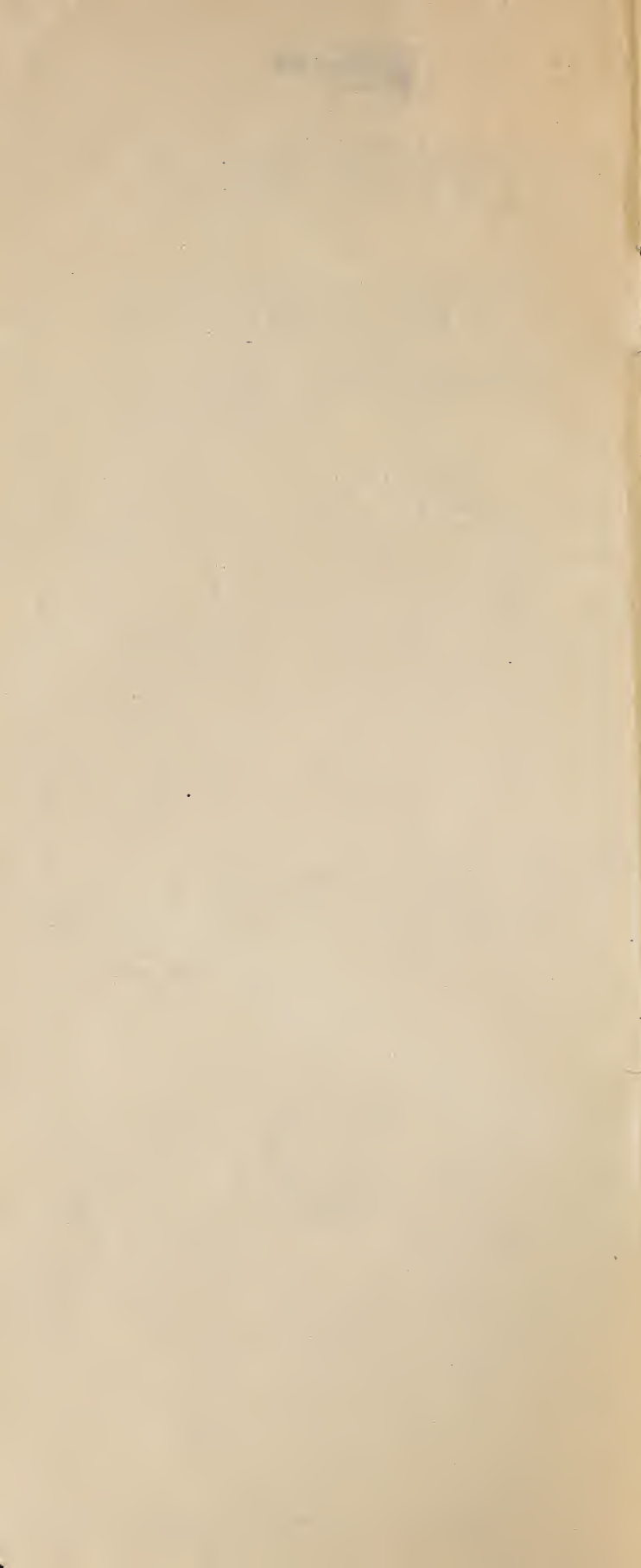
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Once Again the United States Warehouse Act

By H. S. YOHE, United States Department of
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Any movement which tends to create and maintain greater confidence in warehouse paper should interest all bankers. In the February, 1924, issue of the Acceptance Bulletin, I tried to give a picture of the United States warehouse act and what it has been doing for the banker and for the agriculture of the country. Since then another year of experience has passed.

The questions that are now frequently asked by bankers are:

What has been accomplished under the warehouse act in the past year?

Are there any new developments under the act?

Where is it going?

Is it accomplishing its purposes?

How do the warehousemen and bankers who have had experience with it feel toward it?

Some 1924 Accomplishments

What has been accomplished during the past year? Accomplishment from the viewpoint of whether the act is being availed of more than the year previous is best shown in terms of licensed storage capacity of warehouses. In 1923, the high-water mark for cotton storage capacity was about 2,566,000 bales; in 1924 the high mark was 2,800,000 bales. Here is a substantial increase despite the fact that crop conditions in certain sections meant a withdrawal of certain warehouses from the system. More than that, in the past year a certain development took place in New England which, with proper support from the bankers, will result in public warehousemen in that section coming under the terms of the law as generally as they have done in much of the cotton producing territory.

Licensed grain storage capacity in 1923 at one time aggregated a little over 33,000,000 bushels; in 1924 the peak reached over 38,000,000 bushels. In the grain field the

storage capacity of many of the smaller houses was replaced by large elevators of modern construction.

Licensed wool storage witnessed a decrease due to the high price of wool, which resulted in the wool moving from the farmer to the wool merchant almost immediately following shearing.

In 1923 the greatest amount of tobacco that could be stored in licensed warehouses at one time was approximately 348,399,000 pounds. In 1924 the capacity climbed to 590,000,000 pounds.

To those responsible for the administration of the warehouse act, one of the most encouraging features in connection with this development is that many small houses, for one reason or another, were dropped from the system. These, however, were replaced by responsible concerns operating large first-class plants. In grain, for instance, a number of small country elevators were lost to the system but their storage capacity was more than replaced by modern concrete structures with capacities ranging from one-half million to 2,000,000 bushels.

In the tobacco field, very substantial improvement was made. One warehouseman who started in 1923 with permission to store not to exceed 11,400,000 pounds, in 1924 was licensed to store 42,845,000 pounds. All along the line larger and better tobacco warehouses were added to the system.

The cotton end of the project started in 1924 with the licensing of perhaps the largest cotton warehouse in the country, the public warehouses at New Orleans. That among the licensed cotton warehouses are many of the largest in the country is shown by the following table which indicates the number having certain capacities:

Number	Capacity	Number	Capacity
	<i>Bales</i>		<i>Bales</i>
28	5, 000	2	35, 000
6	6, 000	2	40, 000
15	8, 000	1	45, 000
15	10, 000	3	50, 000
8	12, 000	1	60, 000
9	15, 000	1	75, 000
6	18, 000	1	90, 000
12	20, 000	1	190, 000
5	25, 000	1	200, 000
5	30, 000		

These capacities do not represent the actual amounts of cotton handled through the warehouses in a year, but they represent the amounts that can be stored at one time. Agricultural products do not remain in storage. One lot comes in to-day; next week part of it moves out; the next day another lot is received for storage and so the process continues throughout the year. The following table gives some idea of the relationship between volumes of cotton actually clearing through the warehouses on licensed receipts and the licensed capacities of the warehouses:

Warehouse number	Licensed capacity	Bales handled in 1924
	<i>Bales</i>	
158	30, 000	57, 059
411	50, 000	70, 892
412	20, 000	27, 428
431	20, 000	25, 652
481	17, 600	23, 074
536	54, 000	100, 762
545	20, 000	24, 695
546	18, 000	30, 300
547	25, 000	55, 521
555	26, 700	50, 917
556	20, 000	59, 600
578	7, 500	27, 776
717	4, 600	20, 900
739	30, 000	82, 837
740	10, 000	29, 657
770	12, 000	15, 830
771	18, 000	44, 305
792	4, 000	17, 074
819	188, 000	457, 159
828	42, 500	86, 000
853	32, 100	20, 579
856	25, 860	23, 074

New Developments

Is there any new development? Originally the law applied only to cotton, grain, wool, and tobacco. On February 23, 1923, it was amended so as to permit the Secretary of Agriculture to extend its provisions to such agricultural products as he might consider properly storable. On September 29, 1923, farmers stock peanuts were made eligible for storage. During 1924 late crop of potatoes, broomcorn, dry edible beans, dried fruits, and sirups, including cane and maple, were added to the list of eligible products.

In adding these new products to the list the department has tried to draft regulations which would not only make for the elimination of

waste and unsound practices but it has endeavored to throw every safeguard about the warehouse receipts and the products represented by them. Prior to promulgating its regulations it sent copies of the proposed regulations for criticism to the leading members of the trade and to banking institutions which take a lead in financing stored agricultural products. The comment of a leading banker on a draft of proposed regulations is significant of the caution observed by the department in this work:

I have read the proposed regulation with a great deal of interest and have also requested some of my associates to go over it with a critical eye to detect, if possible, any defects that might tend to render its operation less than absolutely sound and thoroughly practicable, and I personally have given particular attention to those sections to which you specifically referred.

I am glad to be able to say that my associates concur with me in the view that the regulations seem to us to be not only practicable but also designed with great skill to insure soundness and the security which should go with a proper warehouse receipt.

Another development which should be of particular interest to bankers in manufacturing centers was initiated in New England in the early fall of 1924. Connected with almost every large flour, cotton, or woolen mill is a first-class warehouse, usually owned by the mill itself. More and more do we hear about independent storage, i. e., storage of products independent of the owner. Generally it is always desirable for the mill to have a stock of raw cotton or wool or grain at hand. In many mill towns there are no storage facilities other than those connected with the mills. Besides, since these mill warehouses are frequently first class, it would be uneconomic to build others and permit the mill facilities to stand idle. Under the United States warehouse act a plan has been developed for leasing such warehouses to a person or corporation in no way connected with the mills. This person exercises complete control over the warehouses. He operates them. He alone and his employees receive and deliver the products. He keeps the keys to the warehouse. The owner of the warehouse or the mill operator has no access whatever to the warehouse. To make the divorcement of the warehouse from the mill complete, a formal lease is entered into between the owner and the operator of the warehouse and this lease is duly recorded.

The lessee of the warehouse, if he can meet the requirements of the warehouse act, can then be licensed and be in position to issue licensed receipts as security to paper which becomes eligible for rediscount with the leading banks and the Federal reserve banks. Here is a suggestion to bankers who desire to finance their mill patrons but who have not had paper which they could pass along for rediscount. Here too is a suggestion to public warehousemen who desire to extend their business to other communities but who may not wish to buy or erect new buildings in those communities.

Additional Receipt Protection

A few months ago one of the leading banks in its monthly bulletin made this statement regarding warehouse receipts: "The right kind of a receipt will open money markets everywhere; the wrong kind of a receipt will not open a market anywhere." That axiom is constantly before those administering the Federal warehouse act. In last year's article the inspection and investigation to which a warehouseman is subject prior and subsequent to licensing were detailed.

As an additional safeguard to the warehouse receipts, during the last year all licensed cotton warehousemen were obliged to have their receipts printed on a specially prepared paper bearing a special design, and through one printer only, who had entered into a contract and filed a bond with the Department of Agriculture. This contract stipulated that licensed warehouse receipts should only be printed on the specially prepared paper and only upon orders in approved form submitted by the warehousemen through department representatives. Department representatives maintained a register of all receipts ordered and printed. These receipts were carefully inspected and checked before they were sent to the warehousemen. The paper manufacturer was also obliged to enter into a contract with and furnish bond to the Department of Agriculture guaranteeing not to furnish this paper to any one except upon orders from the department. Both the printer of the receipts and the manufacturer of the paper are held to strict account for all paper.

Before receipts leave the printer they are carefully sealed by Government examiners. When the examiners make the inspections of

the warehouses they check up to see that all original receipts which are charged against the warehouseman are either at the warehouse, or, in the absence of an original receipt, that the carbon copy is on file and that the particular bale of cotton supposed to be covered by the original receipt is actually in the warehouse. If the cotton is missing, then the original receipt must be found in the hands of the warehouseman, but in canceled form to show that proper delivery was made. Thus each warehouseman is made to account for all the receipts issued to him. This plan eliminates, to a large degree, the possibility of a repetition of what happened in an unlicensed warehouse about two years ago, namely, the issuance of warehouse receipts when no cotton had been received therefor. Of course, receipts might be issued without cotton to cover them in the absence of the inspectors and such action would not be discovered until the next inspection, but the system does not prevent a continuation of such practices indefinitely as have taken place in the past.

To protect himself, the banker will have to familiarize himself with the approved form of licensed warehouse receipt. All the receipts for all warehousemen are printed on the same kind of paper, bearing the same distinctive design and other marks of identification, so that a banker can easily tell whether he has a genuine United States warehouse receipt or one that is not genuine. The necessity for these distinguishing marks has become more and more apparent because since the Government has standardized the receipts, at least three different organizations have issued receipts which, at a glance, seem almost the same as the Federal warehouse receipt, and be it remembered that each of these organizations issues no small number of receipts. The form of those receipts is very similar to the Federal warehouse receipt form. Even their wording follows as closely as it can follow and still not transgress the law.

The experiment made in the use of this specially prepared paper and the printing of receipts through a bonded printer worked so well with cotton warehousemen last year that a new contract has been entered into for this year's receipts for cotton warehousemen. It is proposed also to extend the requirement this year to warehouses licensed for practically all

commodities, with the possible exception of grain warehouses. If the extension can be made to such warehousemen this year, however, it will be made. The big object is to require all warehousemen operating under the United States warehouse act to have receipts on the same specially designed paper and to bear all the other distinctive features so that there will not only be uniformity in the contracts between the warehousemen and their depositors from one end of the country to the other, but there will also be uniformity in the quality and kind of paper and special designs. In other words, the aim is to make the Federal warehouse receipt the same regardless of the location of the issuing warehousemen, so that a banker naturally will recognize it as a receipt issued under the Federal law.

Not only does past experience with warehousemen dictate the necessity for such close supervision over receipts, but the discoveries made by examiners of the department as to the different kinds of paper held by banks emphasizes the importance of standardization of receipts, both as to text and form and appearance. This past fall, for instance, our examiners found two sets of receipts covering identically the same commodity, in the hands of bankers. Still worse, in one instance they discovered the original receipts given as security one day for a loan, and the carbon copies of the same receipts given as security on another day for another loan, both sets of receipts in the very same bank. And this was not a small country bank, but is one of the largest of its kind in the country.

Delivery of Products

When a bank requires warehouse receipts in connection with a loan, it takes those receipts as security for the loan, just the same as it would require an individual to leave with it Liberty bonds which he offered as security to a loan. No banker, however, would think of giving up his Liberty bonds before the loan was paid back. Neither does a banker generally intend to give up his warehouse receipts until the loan is paid. In certain sections of the country, however, warehousemen seem to think that they have the right to load the commodity covered by the pledged receipt and ship it prior to the return of the receipt. When objection is made to that practice, the warehousemen protest that it is

trade practice. The Department of Agriculture takes the ground that the warehouse act does not permit the delivery of a product from a warehouse until the receipts covering that commodity have been returned to the warehousemen. This is only sound practice. It is essential to the preservation of the integrity of the warehouse receipts. More than one banker has had the experience of holding warehouse receipts as security to a loan only to find when his loan was not paid that the products represented by the receipts were among the missing. Bankers will do well to stand back of the department in this requirement of the law and insist that the commodities on which they have made loans shall not be delivered until the loan has been satisfied and the receipts properly surrendered.

Some Reactions Toward the Law

Two of the primary purposes of the warehouse act were to eliminate unsound practices in warehousing and to develop a form of warehouse receipt which would be generally acceptable to bankers as security for loans, so that a holder of agricultural commodities, whether he be producer, dealer, or manufacturer in such commodities, might be able to borrow on the commodity. Is the law accomplishing its purposes? How do warehousemen and bankers and producers who have had experience with this law feel toward it? This can best be shown by extracts from letters from those who have had the experience.

First of all, let us hear from a woolgrowers' organization:

The operation of the United States warehouse act with reference to licensing wool warehouses has operated very beneficially to our association. It has given us a warehouse receipt that is highly recommended by the commercial banks with whom we transact business. * * * We have secured the very best results from operating under the provisions of the warehouse act and shall use every effort to have the services extended to all points where we store wool.

From the much-heard-of financial stricken grain region of the Northwest comes this word:

We are advised by the banks that tickets (receipts) on our houses issued to our customers are much more preferable as collateral than tickets issued by houses that are not under this act. You no doubt are aware that there have been quite a number of bank failures in the Northwest this year and this would naturally cause a drain on the more solid banks, but at that we experienced absolutely no difficulty in financing our

collateral, and we are satisfied that this was due to the fact that our warehouses were all bonded under the Federal warehouse act and the grain storage was under the supervision of your department.

The Warehouseman's Viewpoint

There are warehousemen who still hesitate and even some who refuse to operate their warehouses under the warehouse act. Some have their doubts, and it could not be expected that they should all be licensed in the first few years of operation under a law that is not mandatory in nature. Others, for good reasons to themselves, do not care to operate under the law. Sometimes these good reasons mean nothing more or less than the compulsory abandonment of practices which they themselves know are not sound. Here is a quotation from a letter from one warehouseman who has operated under the law for several years and who indicates some of the reasons why some warehousemen may not care to make themselves amenable to the Federal warehouse act:

I have been handling cotton stored in cotton warehouses for a number of years and I have come to the conclusion that a warehouse operated in strict compliance with the law is a wonderful improvement over the old system. First, all cotton received is bound to be stored in a dry building or shed and not exposed to the weather. Under the old method warehousemen would often handle thousands of bales of cotton beyond their capacity and an enormous quantity of it was stored in the open, giving the owner of the cotton really no better protection than if he had kept it at home. In case of loss or damage, even though it was the fault or negligence of the warehouseman, the farmer or owner of the cotton found it almost impossible to collect the proper measure of damages without long and tedious litigation, but under the Federal warehouse act these things are protected under a good and solvent bond, all of which makes the warehousemen very careful and attentive.

Then, again, the question of issuing receipts for cotton that never has been received, several cases of which I have known in my life, are eliminated. Along that line the compliance with the law prevents the shipping out of cotton without the warehouse receipts having been delivered and canceled, whereas under the old system I have known cotton to be shipped out upon the request of a good customer with nothing more than just a promise to have the receipts in hand within a few days, and in some cases they never came.

Also, in the matter of using cotton warehouse receipts as collateral with bankers, all receipts showing the weight, condition, staple and grade of the cotton make it just as good security as a Liberty bond, and a banker knows just exactly what he is lending his money on. Under the old method, all that a banker had was a receipt showing that the warehouse held a bale of cotton. In no case was the staple and grade shown, and

the banker did not know whether he was lending money on cotton or bollies. In fact, I have known men to buy ordinary cotton and go to a bank and borrow the same quantity of money per bale as they could get for a bale of good middling cotton, so taking everything into consideration I don't see why a man should store a bale of cotton anywhere except in a Federal bonded warehouse and certainly no sensible banker could afford to lend money on it.

Here is what a warehouseman thinks of the Federal law who has been operating under it for the past three seasons and who has been managing cotton warehouses since 1907:

I have been managing a cotton warehouse continuously since 1907, and for the past three seasons we have been operating under the United States warehouse act, and am frank to say that it is the only sane way to run a cotton warehouse. It has several distinct advantages over the old system, and I would unhesitatingly advise any warehouse to bond at once.

From another section of the country another warehouseman writes:

Our receipts are accepted everywhere they are presented. Our Lee County farmers have been carried over from 1920 and 1921 when to sell cotton at 8 and 9 cents would have meant bankruptcy for them and probably the bankers. To-day they are in fine shape and our banks are out of debt for the first time. * * * We feel that our license is as great an asset as our capital stock.

Another warehouseman wrote the department as follows:

We beg to advise that we have been not only thoroughly satisfied but very much pleased with bonded warehousing. From a selfish standpoint we might not care to advertise the advantages that we enjoy as a result of the Government protection afforded our customers, the bankers and financial institutions, and ourselves, as a result of the excellent law under which we operate and the frequent inspection and strict supervision.

In the case of a recent failure of a so-called bonded warehouse about 90 per cent of all the cotton that was released to its owners was transferred immediately to our warehouse, it being the only Government bonded warehouse in this locality. We can not speak too highly of the system or the service that we receive in connection with it.

From a tobacco warehouseman this word was received:

I know you will be interested to know how my venture has turned out. I have already handled through my warehouses since last fall more than 65,000 hogsheads of tobacco, and we have handled through the port more than 8,000 carloads of tobacco. If there has been a single complaint from any one I am not aware of it. I already have 52 large warehouses licensed with you and have started building more, and will be up to see you very soon to get these licensed also.

I know it must be gratifying to you to see the result of the splendid work of your bureau. It has certainly

done a splendid work not only in this community and State, but for the adjoining States.

Six months later the same tobacco warehouseman wrote in part:

I want you to know that this entire city feels very grateful to you and your associates for having helped us to build up one of the largest export tobacco businesses in the United States.

The Banker's Viewpoint

And now for the banker's viewpoint. In a public address to warehousemen, bankers, and cotton dealers, the governor of the Federal Reserve Bank of Atlanta, on March 19, 1924, made this statement:

I know the value of securities from a banker's standpoint, and I know that the warehouse receipt issued by the warehouse that is licensed under the United States warehouse act is the best warehouse receipt that we have ever had in this country.

The bankers in the far Northwest who have handled a good many grain and wool warehouse receipts issued under the United States warehouse act have come to a rather keen appreciation of the value of these receipts. The Washington State Bankers' Association last June at its annual meeting passed this resolution:

Resolved, that this association recognizes that the United States warehouse act, which provides for Federal regulation and supervision of public warehouses, affords adequate protection to the owners of grain and other stored commodities, and enables them to more readily realize upon those commodities because of the greater desirability of the receipts as bank collateral. We recommend this act to the serious consideration of those engaged in the operation of public warehouses.

The banking world is generally familiar with the action taken by the Federal Reserve Bank of St. Louis on July 16, 1924, when the board of directors of that bank resolved that after September 1, 1924, neither that bank nor its branches would accept as collateral warehouse receipts for agricultural products eligible for storage under the United States warehouse act unless such receipts were issued by warehousemen duly licensed under that act.

From an important bank in a Middle Western State, on October 24, 1924, came this message:

We have one warehouse that is operated under the law and it has pleased us very much to have Government supervision.

Some years ago we had a very bad experience with a local warehouse; they shipped out the grain without taking up the warehouse receipts, which caused us

considerable loss. We hope the time will come that the warehouse business of the entire country, especially in the larger cities, will be under the supervision of the Government. It would certainly make our warehouse receipts of outstanding value as collateral.

This last quotation is interesting, in that it shows a loss sustained by a banker due to the practice condemned in a previous paragraph in this article, namely, the delivery of products from the warehouse prior to the return of the receipts. Of course there are bankers all over the country who have shared the same experience.

Conclusion

Now that Congress has given the country a law which was intended to serve not only the producers and warehousemen but the bankers as well, and now that it has been demonstrated through several years of experience that this law is not only practicable as far as the persons who use and operate warehouses are concerned and that it makes for sounder loaning, is it not about time that the bankers generally took steps to protect the funds of their clients by loaning those funds upon the best form of warehouse collateral? Is not the banker, after all, one of the principal beneficiaries under this act? Doesn't this act mean the difference to a banker between making a protected loan and an unprotected loan? Or isn't it the difference between making the safest loan on a warehouse commodity and a loan on anything but a sound basis on such a commodity? Generally speaking, the banker may expect to find the Federal warehouse receipt presented to him as security for agricultural loans only in proportion as he demands it. And since no patron of a warehouse can very well object to having his commodities protected while in storage, and since warehousemen generally do not object to operating under the law, if they understand that it is the wishes of their clients and the banker that they should, isn't it about time that the banker should help himself?



